APS ASSET MANAGEMENT:
Finding gems in a bear market

The great China economic express suddenly found itself losing steam in 2008, with its export sector reeling as a result of wilting external demand and its Shanghai Composite index dropping an astounding 65% for the year. Nonetheless, despite difficult circumstances, APS Asset Management was able to outperform its peers and subsequently awarded *Asia Asset Management's* best performing China A-share product in the three-year category.

APS launched its China A-share product in July 2004 to invest solely in China A-shares. Assets under management grew to US$331 million by the end of September 2008. The fund has recorded 55.36% in annualized returns over the past three years, outperforming the benchmark Shanghai A share index by 22.51%. Its cumulative return over the three year period to September 2008 is 275.01%, well ahead of the benchmark index which registered 134.45%.

Wong Kok Hoi, chairman and chief investment officer at APS Asset Management, credits the strong performance of its China A-share product to its China team, anchored by seasoned fund managers James Liu and Stella Zhang. The group also includes a supporting cast of seven research-oriented analysts and three research offices in the mainland, underscoring APS' belief that people are arguably the most important ingredient for success in the investment business.

Another key factor is its rigorous bottom-up investment approach. "We think our approach works incredibly well in an inefficient market like China. Both James and Stella have worked more than 10 years in APS and hence they are able to apply well the APS approach in China. I think it is the market inefficiency rather than our genius that is behind our outperformance for 5 straight years - 200% alphas," Mr. Wong elaborates.

APS focuses on companies that are managed by honest and competent managers, and prefers those that have the shareholding and management structure that aligns itself with minority shareholders. Since the third quarter of 2007, APS has steered clear of the export and a few manufacturing sectors given the weakening external demand, coupled with the surging raw material and labour cost in China. In turn, it has placed its bets on the infrastructure, domestic consumption stocks and machinery since the last quarter of 2008.

Although the firm points out the world is mired in a severe and seemingly long recession, the Chinese economy would still be able to post respectable growth for a few more years at the least. "By investing in companies that produce quality earnings we tended to be affected less in a crisis or economic slowdown. By not over-paying for stocks we like would also reduce the risk of a sharp PER contraction in an economic recession or crisis," observes Mr. Wong.

Currently, he believes ample liquidity in a low interest rate environment is a boon for mainland equities. Domestic mutual funds hold high cash positions of 30% and the banking system is intact and functioning better than its counterparts in the Western world, with lending being unusually brisk so far this year. For these reasons, a target GDP growth rate of 6 to 8% for the year is attainable.

Trekking forward to 2009, Mr. Wong indicates that probably the biggest challenge APS faces is earning enough to support its large investment team and infrastructure. "We don't plan to downsize our team because we think it is short-term wise but long-term foolish. In fact, we feel that we should probably take some risk by strengthening our investment team further. But of course, we have to do it very selectively," stresses Mr. Wong.

APS professes to the philosophy that in a bear market where confidence is low, gems are easier to find. In this light, the firm aims to continue working diligently and search for them, while concurrently keeping in mind that it must not be swayed by current pessimism and be bold to buy these stocks when it sees good value. Following this strategy, Mr. Wong adds that APS was able to find some of these gems last year and as a result, its China, Japan, and Asian funds have started the year on a very strong note.